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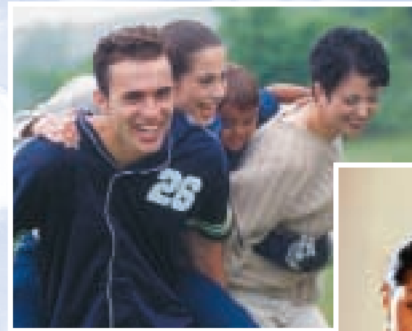
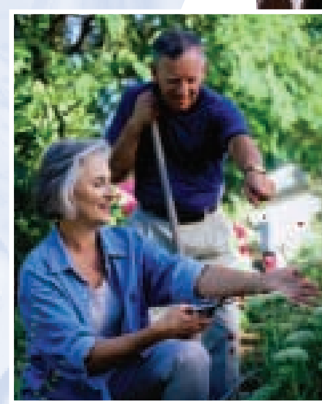
Understanding The Insurance Score





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Questions and Answers about Insurance Scores

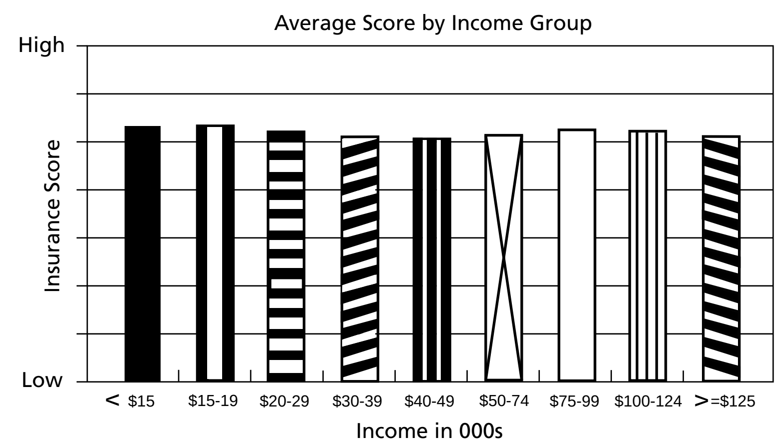
During the past few years, the insurance industry has witnessed changes regarding how insurance companies evaluate and underwrite potential customers. One of the most significant changes is the use of the insurance score in this evaluation. Westfield Group℠ is happy to provide a list of frequently asked questions (FAQs) to inform you about insurance scoring.

1. *What is an insurance score, and how does it differ from a credit score?*

An insurance score is developed through analysis of a consumer's credit report information. Credit information is processed through an insurance score model which determines, based on financial behavior, the consumer's likelihood of experiencing future personal lines insurance claims. The basis for the insurance score model is the actual loss history of consumers with similar financial behavior.

An insurance score is not the same as a credit score. A credit score is the use of credit information analysis to predict future credit behavior. An insurance score is the use of credit information analysis to predict the probability of future insurance losses. For this reason, the insurance score does not measure an individual's income or credit-worthiness. Therefore, a consumer may obtain a very favorable credit score but have a lower insurance score, depending on the information in the credit report.

An example of this would be the customer who qualifies for a new mortgage or other form of loan, but receives a low insurance score. The model used to produce the insurance score is not the same model used to determine whether this individual qualifies for a loan. On a related note, separate studies indicate that insurance score and income level are not correlated. In fact, lower incomes are actually linked with higher insurance scores.



2. ***How does an insurance company obtain an insurance score?***

Consumer credit information is collected at three major credit reporting bureaus (Experian, Equifax, or Trans Union). ChoicePoint, an insurance score vendor, obtains the credit information from one of the bureaus and processes the information through a scoring model to generate a score. This insurance score is then delivered to the insurance company. Agencies are also able to obtain insurance scores from ChoicePoint, via ChoicePoint Link.

The insurance score model relies on predictive characteristics developed through the study of actual consumer claim histories and the financial patterns of these same consumers.

The predictive characteristics are assigned weights, or point values. When the point values for each characteristic are added together, the result is a score that measures the consumer's predicted loss ratio.

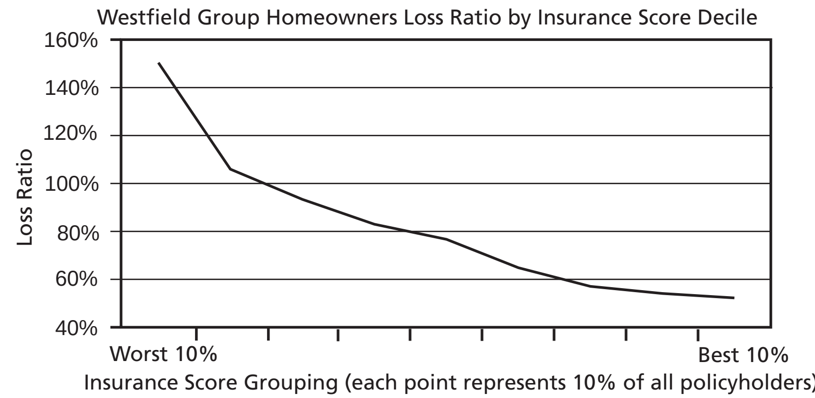
3. ***Why do insurance companies use insurance score as a factor when evaluating an insurance application?***

Because the insurance score provides a consistent method of predicting the future probability of claim activity, it allows insurers to make better risk selections, and to develop more accurate pricing for all risks, based on likelihood of losses.

4. ***How do we know the insurance score model is valid?***

As mentioned before, the model for insurance scoring was developed after study of actual consumer loss histories and the correlating financial histories. This points to the validity of the basis for the model. In addition, this relationship has been tested by comparing the model's predictions to the relationship between actual insurance scores and loss ratios (obtained from sample books of business).

Westfield Group has validated that insurance score is an excellent predictor of Westfield's own loss experience. This graph helps illustrate this point.



5. ***What facets of the credit report does the insurance score model evaluate?***

Some of the information used for insurance scoring includes:

- Outstanding debt
- Length of credit history
- Late payments, collections, and bankruptcies
- New applications for credit
- Types of credit in use

Note: The insurance score model evaluates overall credit patterns. For example, one or two minor late payments will probably not have a significant impact on insurance score. However, an overall pattern that follows this trend probably will.

6. ***What types of information are not used to calculate insurance score?***

The following information is **not** used to calculate an insurance score:

- Ethnic group
- Religion
- Gender
- Marital status
- Nationality
- Age
- Income
- Address

7. What can a consumer do if turned down for insurance because of insurance score?

If an insurance company uses insurance score as one of the underwriting criteria to decline coverage, then applicants must be notified by the insurance company and given an opportunity to obtain a free copy of their credit report from the credit reporting bureau. These are requirements of the Fair Credit Reporting Act (FCRA).

Applicants can obtain a copy of their credit report by contacting ChoicePoint, our insurance score vendor. ChoicePoint can be contacted by telephone at 1.800.456.6004, or by mail:

ChoicePoint Consumer Service Center
P.O. Box 105108
Atlanta, GA 30348-5108

Note: The consumer must provide the ChoicePoint 14 digit reference number when requesting this information.

ChoicePoint will forward a credit report request to the credit score bureau, which will forward the credit report to the consumer. The credit report itself will not contain information regarding the characteristics that contributed to the declination. **Information regarding these characteristics is available only to the agency (or company) through ChoicePoint Link screens.**

However, for your reference, we have included a list of the characteristics:

1. Current outstanding balances on accounts (+/-).
2. Accounts paid as agreed (+) OR account not paid as agreed (-).
3. Number of bank or national revolving or open accounts (+/-).
4. Number of accounts with outstanding balances (+/-).
5. Number of finance company accounts (+/-).
6. Number of recent inquiries within the last 12 months (+/-).
7. Number of accounts opened in the past 12 months (+/-).
8. Relationship of balance to high credit on:
   a. bank accounts;
   b. national accounts; or
   c. other revolving or open accounts (+/-).
9. Outstanding balances on revolving or open accounts (+/-).
10. Lengths of time revolving or open accounts have been established (+/-).
11. Length of time (or unknown time) since account not paid as agreed or trade narrative reported (+/-).
12. Lengths of time accounts have been established (+/-).
13. Number of accounts currently or in the past paid as agreed (+) OR not paid as agreed (-).
14. Length of time since public record or collection agency filing (+/-).
15. Amount past due on accounts (+/-).
16. Number of accounts with high manner of payment (+) OR account not paid as agreed, public record, or collection agency filing (-).
17. Number of collection agency filings (+/-).
18. Number of bank or national revolving or open accounts with outstanding balances (+/-).
19. Length of time since most recent inquiry (+/-).
20. Length of time since most recent trade line opened (+/-).
21. Number of installment loan accounts (+/-).
22. Number of installment loan accounts with outstanding balances (+/-).
23. Length of time since most recent installment loan trade line opening (+/-).
24. Number of accounts with large high credit amounts (+/-).
25. Number of accounts with recent payment information (+/-).
26. Relationship of loan balance to loan amount on installment loan accounts (+/-).
27. Number of trade lines (+/-).
28. Number of adverse public records (judgment, lien, bankruptcy, foreclosure, garnishment…) (+/-).

These definitions may also help with explanation of the above characteristics.

1. **Installment account** - The number of payments is fixed against a set amount (e.g., a car loan, a mortgage).
2. **Inquiries** - A notation on your credit report indicating that a business asked to review a credit file. Note: "consumer-initiated inquiries" (such as the consumer ordering a credit report to check it) and lender's requests for credit reports for the purpose of offering pre-approved credit cards do not count. Neither do inquiries from insurance companies.
3. **Open account** - The entire balance is due in 30, 60, or 90 days (e.g., an oil company account).
4. **Revolving account** - The payment amount is variable each month. It is based on the total amount owed (e.g., a credit card account).
5. **Trade lines** - This provides current payment status and payment history for each account.

The agent can share this information with the consumer and provide details regarding the characteristics that may have contributed to the insurance score.

8. ***How can a consumer find out what his insurance score is?***

See number 7. A consumer can obtain a copy of the credit report from a credit bureau, but the credit report will not contain the insurance score, or information about the characteristics that contributed to a particular score.

Please note that consumers are entitled to a free copy of their credit report by contacting Choice Point at 1.800.456.6004.

9. ***What can a consumer do if credit report errors are found?***

If a consumer finds errors on a credit report, the errors should be reported to the credit bureau from which the report was obtained. The credit bureau is required by law to investigate and respond within 30 days of the consumer's request.

We recommend that consumers review their credit reports annually to check for errors. Consumers can order a credit report from any of the three major credit reporting bureaus.

- Equifax – (www.equifax.com) or 1.800.685.1111
- Experian – (www.experian.com) or 1.888.397.3742
- Trans Union – (www.transunion.com) (Phone orders not available to consumers unless they are entitled to a free copy based on FCRA requirements.)

Note: Unless a consumer is entitled to a free report based on FCRA requirements, all three major credit reporting bureaus charge a fee to provide a credit report.

10. ***What steps can be taken to improve an insurance score?***

Consumers' insurance scores are constantly evolving, based on the information included on their credit reports at any given time. While negative factors decrease the score, positive factors increase it. For example, accounts without late payments will increase the score. Also, if the consumer's current/recent credit history is better

than the previous history, the score is increased. (Re-establishing good credit increases the insurance score.)

For this reason, an insurance score can be improved by paying bills on time, minimizing credit card balances, canceling unused credit cards, and avoiding securing unnecessary new credit.

FAQs to help you explain insurance scoring to your insureds

1. ***Is credit bureau data accurate?***

Associated Credit Bureaus (ACB) commissioned Arthur Andersen to study the accuracy of credit reports. This study found that of the sample taken (15,202 credit application declinations) only 2 percent contained disputed credit information. Furthermore, even when errors were found and corrected, only 0.2 percent of the sample experienced enough change to affect the final outcome.

In addition, the Fair Credit Reporting Act requirements exist as a safeguard to the integrity of credit report information. As explained under items number 7, 8, and 9, the FCRA provides the means for consumers to verify the validity of their credit information and challenge any errors that may occur.

2. ***Is insurance scoring an invasion of consumer privacy?***

An insurance company is looking at the applicant's insurance score, rather than individual items on a credit report. In addition, some negative items that might appear on a credit report (such as bankruptcies or collections) are public record. The credit report does not reflect items that would be considered private, such as income, ethnic group, religion, etc.

3. ***Is the use of insurance scoring legal?***

Westfield Group complies with any state legislation restricting the use of insurance scoring. Westfield Group also complies with FCRA requirements.

4. ***How are people with no credit history (such as young applicants) affected by the use of insurance scoring?***

A "No Score" indicates that not enough information could be obtained from the consumer's credit file to establish a score. A "No Credit/No Hit" indicates that no credit file could be found for a consumer. Applicants with these results will not be automatically turned down for insurance. Depending on the state, these scores may be given further evaluation along with other underwriting criteria, or be assigned a substitute insurance score Tier Factor (in states where tiered rating applies).

Young people, in particular, may be more prone to receiving a "No Score" or "No Credit/No Hit." However, in general, most young people are now establishing credit at an earlier age. Also, through the use of weighting, the insurance score model is capable of generating an objective score, regardless of the amount of credit experience.

5. ***Is an agency required to obtain written permission from a customer prior to ordering an insurance score?***

In states with a "Privacy Act,"* agencies must disseminate the information contained within the "Notice of Insurance Information Practices" when an insurance score is ordered. We recommend that agencies provide a hard copy of this document to insurance applicants. Agencies should inform applicants that an insurance score will be ordered prior to obtaining premium quotes.

We also recommend that agencies pre-qualify any applicant before submitting an application.

*Verify your state's status with the state insurance department.

6. Is insurance score the sole basis for personal lines underwriting decisions?

No. As always, Westfield Group will underwrite personal lines accounts using the same underwriting criteria. Insurance score is an additional tool to be used with existing underwriting tools. The insurance score is objective, accurate, and consistent, and allows Westfield Group to provide more accurate pricing for our personal lines products.

We hope this information increases your knowledge about the use of insurance score. For further information about credit reports, we suggest the web sites of the three major credit reporting bureaus, or the Fair, Isaac web site (www.fairisaac.com).